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December 6, 2010

The way Congress develops tax and spending legislation is guided by a set of specific procedures laid out in the Congressional Budget Act of 1974. The centerpiece of the Budget Act is the requirement that Congress each year develop a “budget resolution” setting aggregate limits on spending and targets for federal revenue. The limits set by the budget resolution, along with a companion “pay-as-you-go” rule, apply to all tax or spending legislation developed by individual committees as well as to any amendments offered on the House or Senate floor.

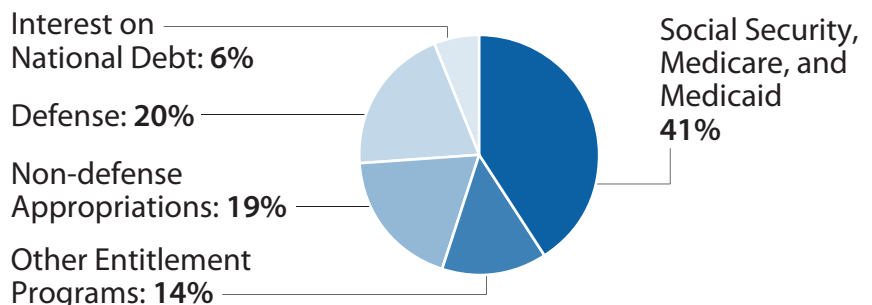
The following is an overview of the federal budget process, including:

- the President’s annual budget request, which kicks off the budget process;
- the congressional budget resolution — how it is developed and what it contains;
- how the terms of the budget resolution are enforced in the House and Senate; and
- budget “reconciliation,” a special procedure used in some years to facilitate the passage of spending and tax legislation.

### Step One: The President’s Budget Request

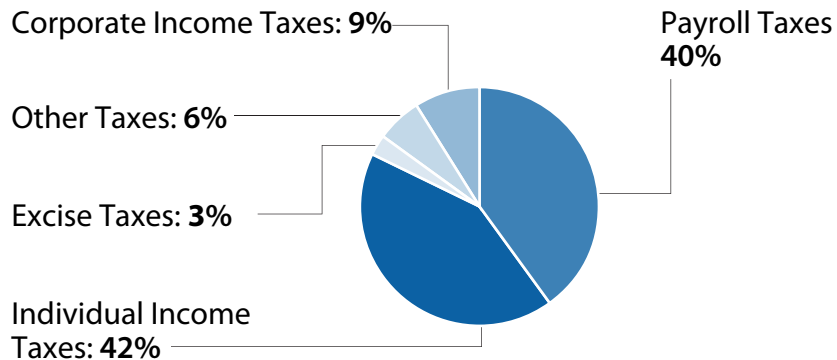
On or before the first Monday in February, the President submits to Congress a detailed budget request for the coming federal fiscal year, which begins on October 1. (In years where there is a change in administration, the budget is submitted later.) This budget request, developed by the President’s Office of Management and Budget (OMB), plays three important roles. First, it tells Congress what the President recommends for overall federal fiscal policy, as established by three main components: (1) how much money the federal government should spend on public purposes; (2) how much it should take in as tax revenues; and (3) how much of a deficit (or surplus) the federal government should run, which is simply the difference between (1) and

### Federal Spending, FY 2010



Source: Congressional Budget Office, August 2010.

### Federal Revenues, FY 2010



Source: Congressional Budget Office, August 2010.

(2). In most years, federal spending exceeds tax revenues and the resulting deficit is financed through borrowing.

Second, the budget request lays out the President's relative priorities for federal programs — how much he believes should be spent on defense, agriculture, education, health, and so on. The President's budget is very specific, and recommends funding levels for individual federal programs or small groups of programs called "budget accounts." The budget typically sketches out fiscal policy and budget priorities not only for the coming year but for the next five years or more. It is also accompanied by historical tables that set out past budget figures.

The third role that the President's budget plays is to signal to Congress what spending and tax policy changes the President recommends. The President does not need to propose legislative changes for those parts of the budget that are governed by permanent law if he feels none are necessary. Nearly all of the federal tax code is set in permanent law, and will not expire. Similarly, more than one-half of federal spending — including the three largest entitlement programs (Medicare, Medicaid, and Social Security) — is also permanently enacted. Interest paid on the national debt is also paid automatically, with no need for specific legislation. (There is, however, a separate "debt ceiling," which limits how much the Treasury can borrow. The debt ceiling is raised as necessary through separate legislation.)

The President does have to ask for one type of spending each year:

- **Funding for "discretionary" or "appropriated" programs**, which fall under the jurisdiction of the House and Senate Appropriations Committees. Discretionary programs must have their funding renewed each year in order to continue operating. Almost all defense spending is discretionary, as are the budgets for K-12 education, health research, and housing, to name just a few examples. Altogether, discretionary programs make up about one-third of all federal spending. The President's budget spells out how much funding he recommends for each discretionary program.

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The President’s budget can also include:

- **Changes to “mandatory” or “entitlement” programs**, such as Social Security, Medicare, Medicaid, and certain other programs (including but not limited to food stamps, federal civilian and military retirement benefits, veterans’ disability benefits, and unemployment insurance) that are not controlled by annual appropriations. For example, when President Bush proposed adding a prescription drug benefit to Medicare, he had to show a corresponding increase in Medicare costs in his budget, relative to what Medicare would otherwise be projected to cost. Similarly, if the President were to propose a reduction in Medicaid payments to states, his budget would show lower Medicaid costs than projected under current law.
- **Changes to the tax code.** Any presidential proposal to increase or decrease taxes is reflected in a change in the amount of federal revenue that the President’s budget projects will be collected the next year or in future years, relative to what would otherwise be collected.

To summarize, the President’s budget must request a specific funding level for appropriated programs and may also request changes in tax and entitlement law.

### Step Two: The Congressional Budget Resolution

After receiving the President’s budget request, Congress generally holds hearings to question Administration officials about their requests and then develops its own budget resolution. This work is done by the House and Senate Budget Committees, whose primary function is to draft and enforce the budget resolution. Once the committees are done, their budget resolutions go to the House and Senate floors, where they can be amended (by a majority vote). A House-Senate conference then resolves any differences, and a conference report is passed by both houses.

The budget resolution is a “concurrent” congressional resolution, not an ordinary bill, and therefore does not go to the President for his signature or veto. It also requires only a majority vote to pass, and its consideration is one of the few actions that cannot be filibustered in the Senate.

The budget resolution is supposed to be passed by April 15, but it often takes longer. Occasionally, Congress does not pass a budget resolution. If that happens, the previous year’s resolution, which is a multi-year plan, stays in effect.

- **What is in the budget resolution?** Unlike the President’s budget, which is very detailed, the congressional budget resolution is a very simple document. It consists of a set of numbers stating how much Congress is supposed to spend in each of 19 broad spending categories (known as budget “functions”) and how much total

revenue the government will collect, for each of the next five or more years. (The Congressional Budget Act requires that the resolution cover a minimum of five years, though Congress sometimes chooses a longer period, such as 10 years.) The difference between the two totals — the spending ceiling and the revenue floor — represents the deficit (or surplus) expected for each year.

- **How spending is defined: budget authority vs. outlays.**

The spending totals in the budget resolution are stated in two different ways:

the total amount of “budget authority” that is to be provided, and the estimated level of expenditures, or “outlays.” Budget authority is how much money Congress allows a federal agency to commit to spend; outlays are how much money actually flows out of the federal treasury in a given year. For example, a bill that appropriated \$50 million for building a bridge would provide \$50 million in budget authority in the same year, but the outlays might not reach \$50 million until the following year or even later, when the bridge actually is built.

Budget authority and outlays thus serve different purposes. Budget authority represents a limit on how much funding Congress will provide, and is generally what Congress focuses on in making most budgetary decisions. Outlays, because they represent actual cash flow, help determine the size of the overall deficit or surplus.

- **How committee spending limits get set: 302(a) allocations.**

The report that accompanies the budget resolution includes a table called the “302(a) allocation.” This table takes the spending totals that are laid out by budget function in the budget resolution and distributes them by congressional committee instead. The House and Senate tables are slightly different from one another, since committee jurisdictions vary somewhat between the two chambers.

The Appropriations Committee receives a single 302(a) allocation for all of its programs. It then decides on its own how to divide this funding among its 12 subcommittees, creating what are known as 302(b) sub-allocations. The various committees with jurisdiction over mandatory programs each get an allocation that represents a total dollar limit on all of the legislation they produce that year.

The spending totals in the budget resolution do not apply to the “authorizing” legislation produced by most congressional committees. Authorizing legislation typically either changes the rules for a federal program or provides a limit on how much money can be appropriated for it. Unless it changes an entitlement program (such as Social Security or Medicare), authorizing legislation does not actually have a budgetary impact. For example, the education committees could produce legislation that authorizes a certain amount to be spent on the Title I education program for disadvantaged children. However, none of that money can be spent

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until the annual Labor-HHS-Education appropriations bill — which includes education spending — sets the actual dollar level for Title I funding for the year, which is frequently less than the authorized limit.

Often the report accompanying the budget resolution contains language describing the assumptions behind it, including how much it envisions certain programs being cut or increased. These assumptions generally serve only as guidance to the other committees and are not binding on them. Sometimes, though, the budget resolution includes more complicated devices intended to ensure that particular programs receive a certain amount of funding. For example, the budget resolution could create a “reserve fund” that could be used only for a specific purpose.

The budget resolution can also include temporary or permanent changes to the congressional budget process. For example, the fiscal year 2008 budget resolution (adopted in 2007, soon after the Democrats regained control of both houses) contained a provision reinstating the “pay-as-you-go rule” (PAYGO) in the Senate (see box: “The ‘Pay-As-You-Go’ Rule”).

### Step Three: Enforcing the Terms of the Budget Resolution

The main enforcement mechanism that prevents Congress from passing legislation that violates the terms of the budget resolution is the ability of a single member of the House or the Senate to raise a budget “point of order” on the floor to block such legislation. In some recent years, this point of order has not been particularly important in the House because it can be waived there by a simple majority vote on a resolution developed by the leadership-appointed Rules Committee, which sets the conditions under which each bill will be considered on the floor.

However, the budget point of order is important in the Senate, where any legislation that exceeds a committee’s spending allocation — or cuts taxes below the level allowed in the budget resolution — is vulnerable to a budget point of order on the floor that requires *60 votes* to waive.

Appropriations bills (or amendments to them) must fit within the 302(a) allocation given to the Appropriations Committee as well as the Committee-determined 302(b) sub-allocation for the coming fiscal year. Tax or entitlement bills (or any amendments offered to them) must fit within the budget resolution’s spending limit for the relevant committee or within the revenue floor, both in the first year *and* over the total multi-year period covered by the budget resolution. The cost of a tax or entitlement bill is determined (or “scored”) by the Budget Committees, nearly always by relying on the nonpartisan Congressional Budget Office, which measures the bill against a budgetary “baseline” that projects entitlement spending or tax receipts under current law.

### The “Pay-As-You-Go” or “PAYGO” Rule

Independent of the Congressional Budget Act, the House and Senate each have a rule requiring that all entitlement increases and tax cuts be fully offset. For example, a bill that increases Medicare spending would have to be paid for by cutting somewhere else in Medicare or another entitlement program, by raising revenues, or by a combination of the two. The rule does not apply to discretionary spending, which is limited by the allocations set in the annual budget resolution. The “PAYGO” rule was originally enacted in the Budget Enforcement Act of 1990 and expired in 2003.

If legislation providing for new tax cuts or entitlement increases is not paid for, the “PAYGO” rule gives any senator the power to raise a point of order against the bill, which can only be waived by the vote of *60 senators*. In the House, any Member can raise a point of order, and there is no opportunity to vote to waive the PAYGO requirement — the bill is automatically defeated, unless the leadership-appointed Rules Committee has decided in advance to waive PAYGO as part of the broader measure (referred to as a rule) setting the terms of debate on the bill as a whole and the House has agreed to that rule.

PAYGO is an additional requirement, separate and apart from the terms of the budget resolution. A bill that cuts taxes or increases entitlement spending without an offset would violate the PAYGO rule *even if* the budget resolution had assumed the enactment of tax cuts or entitlement increases and allocated the necessary amounts to the relevant committees. (The PAYGO rule does not directly apply to the budget resolution itself or amendments to it, however.)

In order to satisfy the House and Senate PAYGO rules, a bill must be paid for over the first six years (including the current year), and over the first 11 years (including the current year). The Senate PAYGO rule does not consider the impact of a bill on Social Security and other “off-budget” items, whereas the House PAYGO rule applies to the “unified budget,” which includes Social Security.

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### The Budget “Reconciliation” Process

From time to time, Congress makes use of a special procedure outlined in the Congressional Budget Act known as “reconciliation.” This procedure was originally designed as a deficit-reduction tool, to force committees to produce spending cuts or tax increases called for in the budget resolution. However, it was used to enact tax cuts several times during the George W. Bush Administration, thereby increasing projected deficits. This practice has since been barred, by House and Senate rules adopted in 2007 at the same time as the PAYGO rule.

- **What is a reconciliation bill?** A reconciliation bill is a single piece of legislation that typically includes multiple provisions (generally developed by several committees) all of which affect the federal budget — whether on the mandatory spending side, the tax side, or both. A reconciliation bill, like the budget resolution, cannot be filibustered on the Senate floor, so it only requires a majority vote to pass.

### ■ The PAYGO

("pay-as-you-go") rule helps ensure that tax cuts and entitlement increases are paid for, and do not add to the deficit.

- **How does the reconciliation process work?** If Congress decides to use the reconciliation process, language known as a "reconciliation directive" must be included in the budget resolution. The reconciliation directive instructs committees to produce legislation by a specific date that meets certain spending or tax targets. (If they fail to produce this legislation, the Budget Committee Chair generally has the right to offer floor amendments to meet the reconciliation targets for them, a threat which usually produces compliance with the directive.) The Budget Committee then packages all of these bills together into one bill that goes to the floor for an up-or-down vote, with only limited opportunity for amendment. After the House and Senate resolve the differences between their competing bills, a final conference report is considered on the floor of each house and then goes to the President for his signature or veto.
- **Constraints on reconciliation: the "Byrd rule."** While reconciliation enables Congress to bundle together several different provisions affecting a broad range of programs, it faces one major constraint: the "Byrd rule," named after the late Senator Byrd of West Virginia. This Senate rule makes any provision of (or amendment to) the reconciliation bill that is deemed "extraneous" to the purpose of amending entitlement or tax law vulnerable to a point of order. If a point of order is raised under the Byrd rule, the offending provision is automatically stripped from the bill unless at least 60 senators vote to waive the rule. This makes it difficult, for example, to include any policy changes in the reconciliation bill unless they have direct fiscal implications. Under this rule, authorizations of discretionary appropriations are not allowed, nor are changes to civil rights or employment law, for example. Changes to Social Security also are not permitted under the Byrd rule.

In addition, the Byrd rule bars any entitlement increases or tax cuts that cost money beyond the five (or more) years covered by the reconciliation directive, unless these "out-year" costs are fully offset by other provisions in the bill. This is one reason that Congress made the 2001 tax cuts expire after ten years, rather than making them permanent.

In short, the annual federal budget process begins with a detailed proposal from the President in February; Congress next develops a blueprint called a budget resolution that sets limits on how much each committee can spend (or reduce revenues) over the course of the year; and the terms of the budget resolution are then enforced against individual appropriations, entitlement bills, and tax bills on the House and Senate floors. In addition, Congress sometimes uses a special procedure called "reconciliation" to facilitate the passage of deficit reduction legislation or other major entitlement or tax legislation. Finally, a companion PAYGO rule helps ensure that tax cuts and entitlement increases are paid for and do not add to the deficit.